

MAJOR REVENUE SOURCES

Assumptions, Estimates, & Trends

Overview

Funding for services provided to Gallatin County residents come from a variety of sources. The County strives to maintain a diversified and stable revenue system that will provide shelter from short-term fluctuations in any one revenue source and ensure the ability to provide ongoing services, within the confines of Montana Law. Gallatin County is heavily reliant upon property tax levy for its general fund, public safety, Fair, Noxious Weed, Senior Programs, Library and road / bridge revenue, which is explained in greater detail on the following pages. The County will continue its policy of seeking alternative revenue sources to lower the tax burden for County services, charging users for specific services where feasible, and aggressively collecting all revenues due to the County. Enterprise fund revenues are generated through direct fees for service. Total estimated (budgeted) revenue, regardless of the source, amounts to \$73,043,431 for FY 2010.

County revenues are divided into eight basic categories: Taxes and Assessments; Licenses and Permits; Intergovernmental Revenue; Charges for Services; Fines and Forfeitures; Miscellaneous Revenue; Investment Earnings; and Inter-fund Transfers.

Taxes and Assessments - comprised of Taxes derived from the levying of taxes on real property, personal tangible property and Assessments generated by charges within districts either based on value or a unit. Examples of taxes are real property taxes, with Assessment examples being Rural Improvement District (RID) Maintenance fees and Fire Service Area Fees.

Licenses and Permits – come from the issuance of local licenses and permits. The County has very few licenses and permits. Wastewater Treatment Permits (Septic Permits) is an example.

Intergovernmental Revenue – are generated from grants by federal, state and other local government sources, shared revenues and payments in lieu of taxes. State entitlement and PILT are examples.

Charges for Services – revenues generated by charges for services — primarily revenues of Enterprise and Internal Service Funds. Examples of charges for services are solid waste disposal fees, Rest Home per bed fees and charges collected by Clerk & Recorder, Planning and Zoning areas.

Fines and Forfeitures - received from Justice and District Court for fines and penalties imposed for the commission of statutory offenses, violation of lawful administrative rules and regulations, and for neglect of official duty. Examples include: court fines, victim witness fines and bonds forfeited.

Miscellaneous Revenue: Revenue from sources not otherwise provided in other categories. Rents and impact fees are examples of miscellaneous revenues.

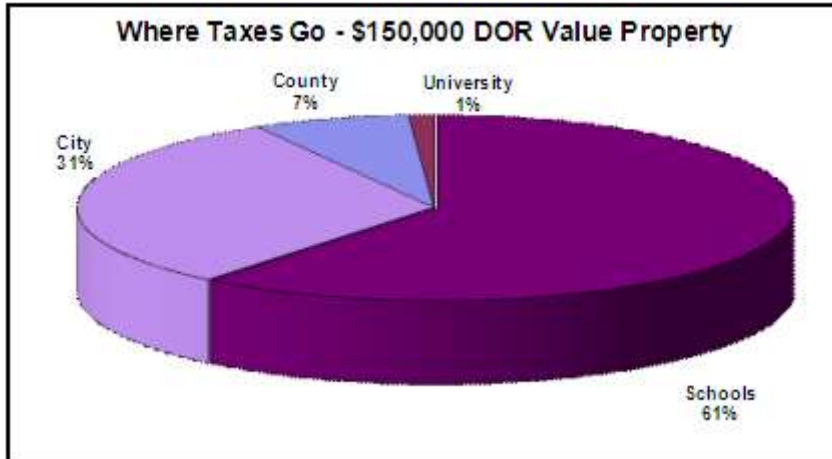
Investment Earnings: Revenue derived from the investment of available cash balances and delinquent taxes.

Interfund Transfers: Transfers between individual funds of a governmental unit that are not repayable and are not considered charges for goods or services. An example is matching funds transferred from public safety to Drug Task Force for grant match and administrative costs.

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When talking about County Revenues, we must state that they are only 20% of revenue collected by the Treasurer. The majority of revenue is collected and used by Trust and Agency accounts. These include 16 Elementary School Districts, 6 High School Districts, 5 Cities and Towns and many state Funds.

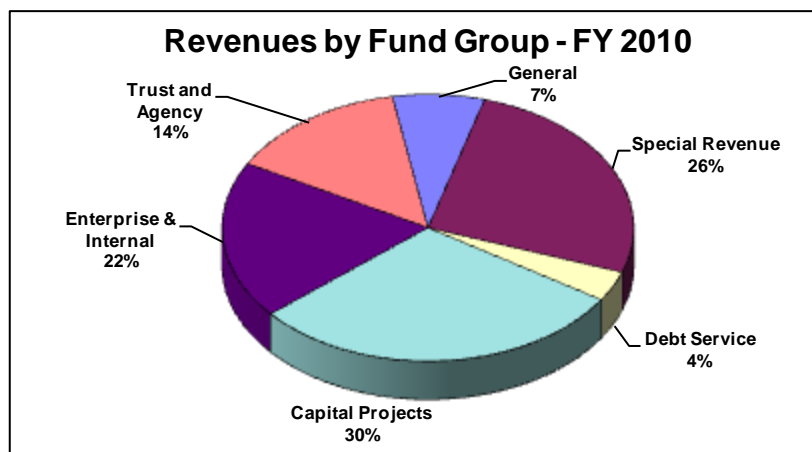
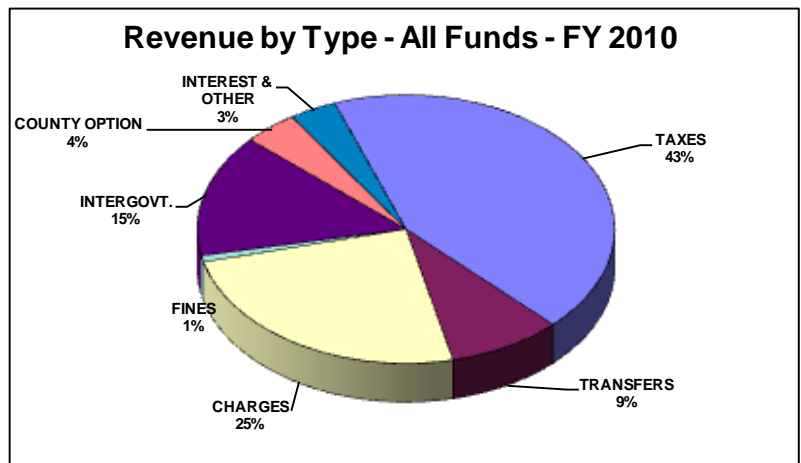


A graph of Where Taxes Goes in FY 2010, shows Schools received 61%, the City of Bozeman generated 31%, and Gallatin County collected 7%.

A County-Wide graph for other areas would show comparable break downs, with schools generally receiving 72% of taxes, county 18%, cities 9% and state university 1% for the County as a whole.

Shown in the graphs below are two pie charts giving graphic overview of total County revenues—one by the Type and the other by Fund Group.

As depicted by the graph of revenues by type, taxes and assessments and charges for services are the two largest categories of County revenues for FY 10 Final Budget (68% vs. 64% for FY 09 and 74% for FY 08). Intergovernmental and County Option are the next largest section at 19%, compared to 15% in FY 09 and 12% in FY 08. Finally, Transfers account for 9% in FY 2010 of all revenues. These five revenue types constitute 92% of all Gallatin County revenues estimated for FY 2010.



The graph of Revenues by Fund Group gives the reader a look at the 'Big Picture' of County revenues. The graph on the left shows the general fund accounts for 7% of revenues, Enterprise and Internal Service Funds generate 22%, Special Revenue Funds are at 26% and Capital Projects account for 30%. These four Fund Groups account for 85% of all revenues estimated to be generated by County Funds in FY 2010.

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Revenue Forecast Assumptions & Methodology

Forecasting, as used in the budget, refers to the methodology used in projecting future changes in revenues. It provides an estimate of revenue amounts that will be available and the resources required to meet current service levels and programs over the forecast period. The value of forecasts is in estimating whether (given assumptions about local financial policies and economic trends) the County will have sufficient resources to meet the resource requirements of ongoing, planned, or mandated programs. Forecast models have the added value of providing a planning tool for capital projects and indicating whether bonded indebtedness will be required for capital funding. In short, forecasting provides an estimate of the financial flexibility of the County, as well as insight into tax, revenue, and service options the Commission must address. Our forecasting methodology reflects a combination of internal analysis and locally generated consensus forecasts covering such factors as population growth, revenue trends, and inflation. Specifically, for revenue forecasts, we begin with models that include prior year actual collections and project the balance of the current fiscal year based on prior year patterns.

In general, we seek to match revenue sources with economic and/ or demographic variables that most directly affect year-to-year changes in those revenues. Methods to project revenues used in the budget vary depending upon the type of revenue examined. However, the most common method used is **Trend Analysis** and especially a year-to date approach. Examination of a variety of revenue sources on a monthly basis, has revealed consistent patterns in monthly collections. Trends are identified, along with an analysis of whether or not the trend is likely to continue. These have been good indicators of revenue collections during the course of a year and help to set a basis for future projections. Forecasting variances are analyzed and used to improve forecasting in future periods. **Expert Judgment** is a projection methodology that relies upon individual department directors and financial managers to make projections for the revenues that affect their operations.

Revenue Estimates

The National Advisory Council on State and Local Budgeting prepared a set of recommended practices relating to governmental revenue estimates. Stated below are some excerpts from their recommended practices, along with Gallatin County's revenue estimate practices.

Projection of revenues and other resources is critical in order to understand the level of funding available for services and capital acquisition. Projections for future budget periods help determine the likelihood that services can be sustained and highlight future financial issues to be addressed. Preparing revenue projections also enhances our understanding of revenue sensitivity to changes in assumptions and to controllable factors such as changes to tax rates or fees.

One key analytical tool used, by the County, to assist in the development of revenue estimates, is the comprehensive five-year financial forecast. This forecast considers key revenue and expenditure projection factors such as population, changes in the Consumer Price Index (CPI) and other growth factors. The trending of these key factors and their affect on revenues and expenditures for the past ten years provides a historical basis for the five-year financial forecast. The forecast was initially prepared in 2001, and is updated annually during the mid-year budget review process.

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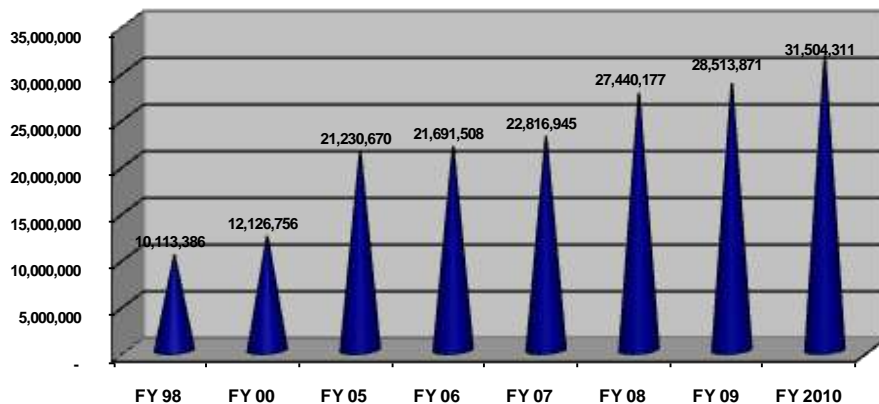
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Overall, the County's practice is to budget revenues conservatively and to use as much information as possible to enhance the accuracy of revenue estimates. By identifying and utilizing as many revenue-related variables in forecasting, we minimize the risks of overstating or understating revenues that could arise from using only a few variables to forecast revenues. Our approach to forecasting, in general, is to apply a conservative philosophy that will produce our long-term goal of not overstating revenues. Most estimates involve two projections: an estimate for the amount to be collected in current year based on year-to-date activity; and an estimate for the increase or decrease in receipts anticipated for a future budget year. As part of the mid-year budget review process, the revenue assumptions included in the forecast are comprehensively reexamined based on actual results for 2008-09, as well as emerging trends at the mid-point of the year.

The following revenue categories, their trends, and estimates represent 89% of total County Revenues.

Key Revenue Estimates & Trends

Taxes and Assessments All County Funds

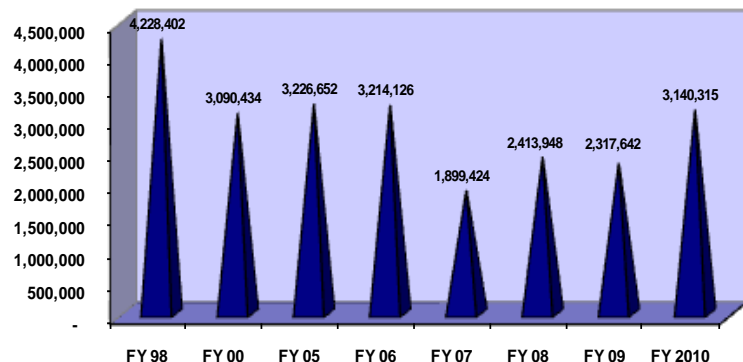


Taxes / Assessments generate 42.97% of the County's Revenues. The graph on the left shows Taxes and Assessments for all County Funds over an 8-year period, with estimates for the current year and budgeted revenues for FY 2010. The increase in revenues comes from the effects of reappraisal, new construction, voted levy increases for the Open

Land Bond, 9 mills for Dispatch, new taxes for fire districts and fire service areas, new rural improvement districts and taxes authorized by the legislature. No assumption is used in for taxes.

The graph on the right shows actual General Fund Taxes for an 8-year period, together with estimates for the current year and budgeted revenues for FY 2010. The reduction in revenues in FY 2000 began with the separation of Public Safety into a new Fund. This transferred taxes into the Public Safety Fund, but did not increase the tax burden for taxpayers. The General Fund is now predominately the Administrative arm of the County.

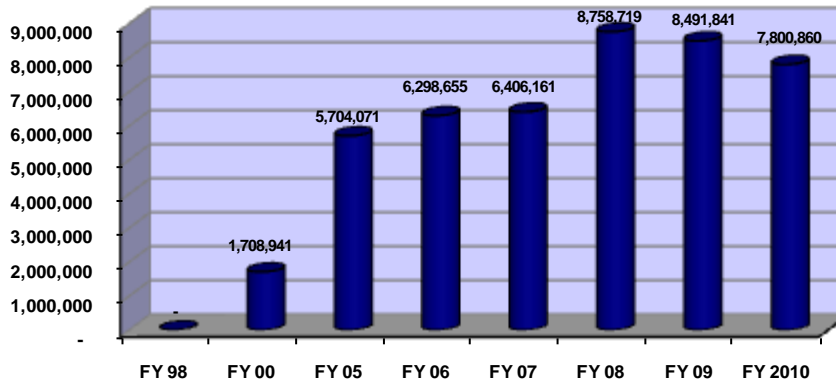
General Fund Taxes FY 98 - FY 2010



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Public Safety Fund Taxes FY 98 - 2010

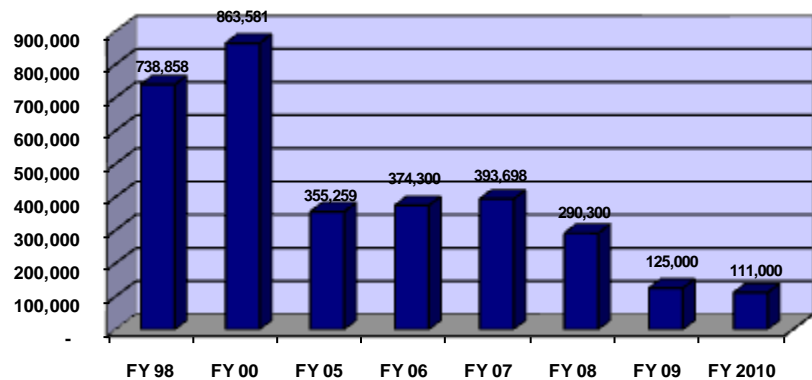


The Public Safety Fund (created in FY 99 from the General Fund) tax is the single largest portion for Gallatin County Government. The rapid growth of taxes comes from yearly decisions by the County Commission to emphasize Public Safety with a corresponding increase in taxes. The majority of the increase comes from the inflation mills and decreases in millage to other County Tax supported funds. The reduction in the FY 10 Final

Budget comes from the loss of two deputies and elimination of Capital.

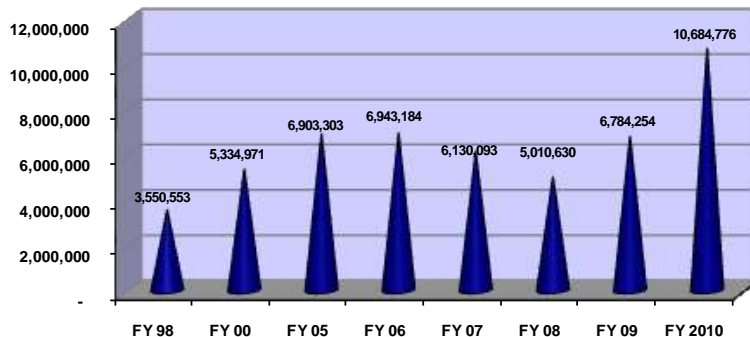
License & Permit - revenues are shown on the right. The decline from FY 00 reflects legislative changes (including Motor Vehicle Fees, Bank License taxes, Gambling Revenues and others); the lost revenue offset the state assumption of Public Assistance and District Courts. The change included the state transferring a portion of the revenue back as Intergovernmental Entitlement. Revenues decrease from FY 07

License & Permits



with the elimination of revenues from delinquent motor vehicles and gambling licenses. Projects are based

Intergovernmental Revenue

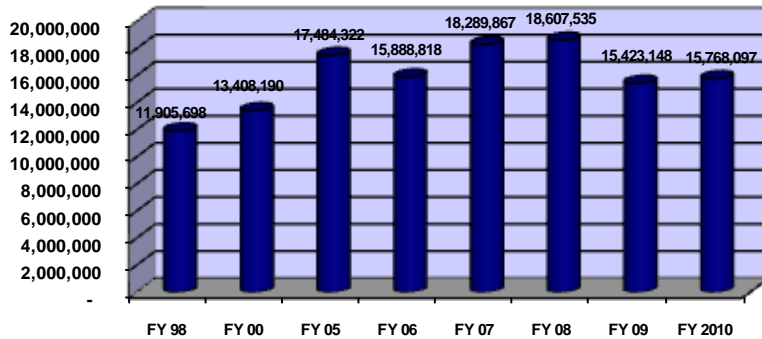


The increase in **Intergovernmental Revenues** to 14.95% of revenues in FY 2010 is directly related to a significant increase in Grant Revenues for fire areas. Projections are based on awarded grants, historic grants and known changes.

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Charges for Services - All Funds Funds

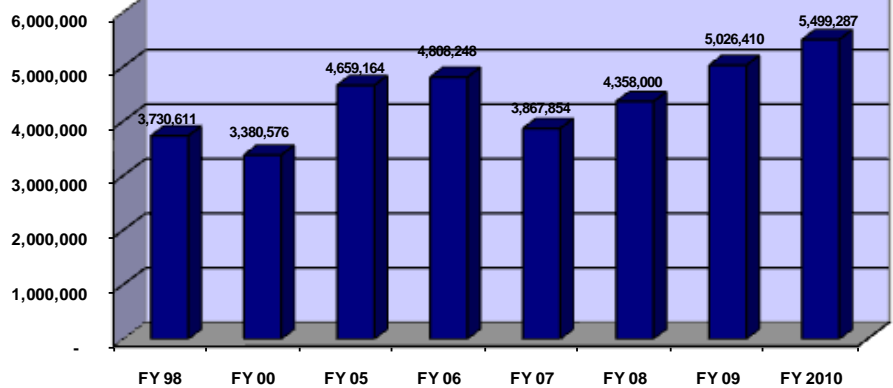


Charges for Services - for all funds, represents 21.51% of Gallatin County revenues. The largest component of this source is charges generated by Enterprise activity. Specific graphs follow for the two largest components. Growth for other fees is primarily based on estimated property activity including re-mortgaging, subdivision, zoning and property splits. These activities have seen a decrease of 45% from two years ago, but are anticipated to remain static for FY 2010.

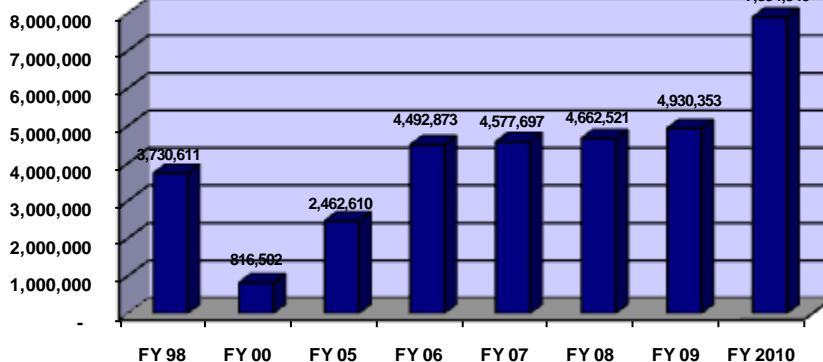
The change in Rest home charges for services are based on increases in federal / state requirements, the per day cost rate and estimated number of beds occupied. Revenues have increased from just under \$3.8 million in FY 98 to a projected \$5.5 million in FY 2010. Another factor involved with Rest Home revenues

comes from a decrease in available certified staff that has required a reduction in available beds to maintain the "high standard of quality care" the rest home is known for. With unemployment rates at 6.5%, this problem should decrease slightly for FY 2010.

Rest Home - Charges for Services



Solid Waste - Charges for Services

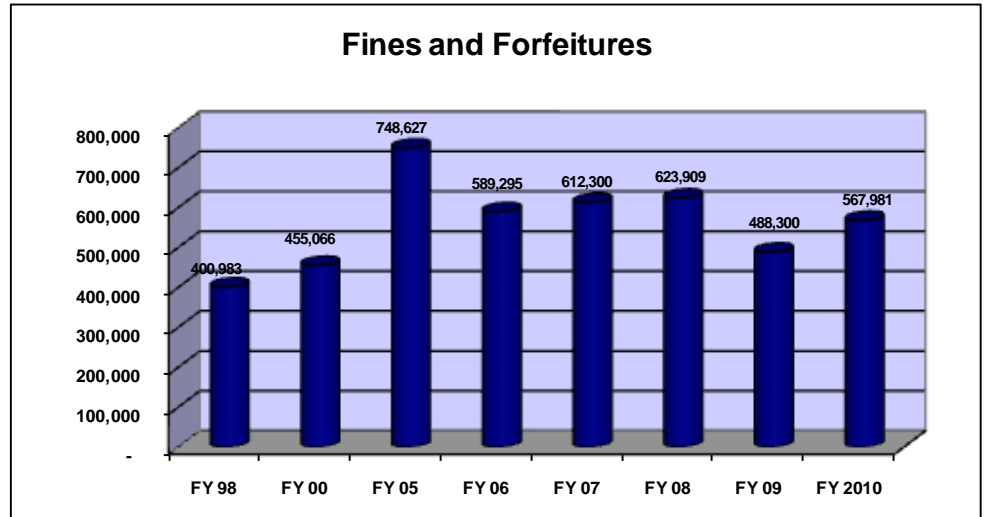


Charges for services at the Logan landfill showed a steady growth for FY 06, FY 07, FY 08 and FY 09. FY 2010 sees an **6% decrease**. This comes from the economic downturn, fewer visitors staying less time in Yellowstone and an increase in recycling. The districts continue to be on solid financial footing with adequate reserves.

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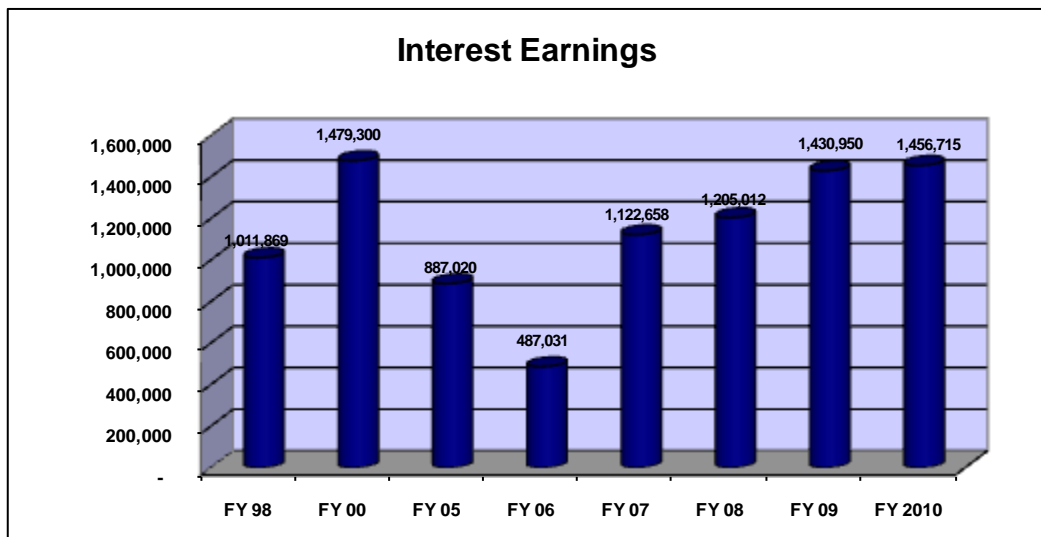
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Fines and Forfeitures – in the County, are generated primarily (95%) from two Justice Courts. Revenues increase and decrease based on a correlation between citations, Criminal acts, felonies and bonds based on population and the number of active officers (Sheriff, City Police, Town Marshal, Highway Patrol and Rangers/Wardens). The graph shows an increase from \$400,000 in FY 98 to \$567,981 estimated for FY 2010. This is a 41% increase in 12 years. A factor in the increase in revenues, is the doubling of small claims from \$3,500 to \$7,000. The 10% decrease in FY 2010 from FY 08 is caused by a change requiring splitting of Bond Forfeitures with the State.



Investment earnings - reflect a combination of available cash balances together with the interest rate the County is able to obtain and delinquency for taxes. As shown by the graph, investment earnings have been volatile, with sharp declines and equally sharp increases, which correspond to interest rates in the national economy, and increases in cash available for the County to invest. Interest earnings in FY 2010 are expected to be just over \$1.4 million. The County General Fund receives about 1/3 of the interest generated

by County funds, with the Public Safety, Capital Projects and Public Works areas receiving the majority of investment earnings.



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Overall revenues are creasing for FY 2010 to \$73,043,431 compared to \$71,761,793 for FY 2009. Revenue generated by taxes increased from \$28,513,870 to \$31,504,311, an increase of \$2,990,441 (10.48%). The majority of this increase is for voter approved debt service (bond) payments of \$1,497,759 for the new Detention Center and an increase in debt for Open Space requiring a x increase of \$324,475.

The following is a comparison of taxes by type:

Type	FY 2009	FY 2010	difference	% Chng.	Explanation
County Operations	\$15,408,210	\$16,343,857	\$ 935,647	6.07%	Newly Taxable Property
County Rural	2,980,571	3,153,566	172,995	5.08%	Newly Taxable Property
Permissive / Debt	2,251,477	3,941,648	1,863,166	82.75%	New Debt
Special Revenue	185,766	190,726	4,960	2.67%	New residents
Fire					Newly Taxable and Voted
Districts/Areas	4,882,821	5,460,905	578,084	11.84%	levies
Other Districts	1,517,763	1,195,389	(322,374)	(21.24%)	Sewer and Water charges
RID Mntc/Bonds	<u>1,287,262</u>	<u>1,218,220</u>	<u>(69,042)</u>	(5.36%)	Bonds paid off / Eliminate 2 Maintenance Districts
TOTAL	\$28,513,870	\$31,504,311	\$2,990,441	10.49%	

The County Treasurer reported that tax collections were below historic levels by an estimated 2% for the period ending June 30, 2009. The County is anticipating delinquencies to continue higher than previous years and that protests associated with re-appraisal will decrease the amount billed and collected for FY 2010 for all county, school, city and special districts.